

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Tobacco	County Gladwin
Audit Date March 31, 2006	Opinion Date July 6, 2006	Date Accountant Report Submitted to State: August 4, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

July 6, 2006

To the Township Board
Township of Tobacco
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Tobacco, Gladwin County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Tobacco's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Tobacco, Gladwin County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Tobacco covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$731,959.58 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$417,767.74 from governmental activities. Governmental activities had a \$216,458.29 decrease in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, the Fire Fund, Garbage Fund, Petrick Pine Fund, Daleview Fund and the Current Tax Collection Fund.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Fire Fund, Garbage Fund, Petrick Pine Fund and the Daleview Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$227,089.71.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in fixed assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents 42% of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk, Roshelle Brubaker at 989-435-4525.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	566 379 39
Taxes receivable	7 103 44
Special assessments receivable	<u>11 098 35</u>
Total Current Assets	<u>584 581 18</u>
NON-CURRENT ASSETS:	
Capital Assets	228 806 00
Less: Accumulated Depreciation	<u>(76 002 40)</u>
Total Non-current Assets	<u>152 803 60</u>
TOTAL ASSETS	<u><u>737 384 78</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>5 425 20</u>
Total Current Liabilities	<u>5 425 20</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>5 425 20</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	152 803 60
Unrestricted	<u>579 155 98</u>
Total Net Assets	<u>731 959 58</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>737 384 78</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	16 642 56	-	(16 642 56)
General government	98 514 49	47 996 97	(50 517 52)
Public safety	158 665 85	2 753 23	(155 912 62)
Public works	349 463 93	95 345 00	(254 118 93)
Other	<u>10 939 20</u>	-	<u>(10 939 20)</u>
Total Governmental Activities	<u>634 226 03</u>	<u>146 095 20</u>	<u>(488 130 83)</u>
General Revenues:			
Property taxes			62 865 91
State revenue sharing			176 365 64
Interest			13 268 00
Miscellaneous			<u>19 172 99</u>
Total General Revenues			<u>271 672 54</u>
Change in net assets			(216 458 29)
Net assets, beginning of year			<u>948 417 87</u>
Net Assets, End of Year			<u>731 959 58</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2006

<u>Assets</u>	<u>General</u>	<u>Garbage</u>	<u>Fire Protection</u>
Cash in bank	294 487 56	108 586 79	123 471 03
Taxes receivable	7 103 44	-	-
Special assessments receivable	-	10 743 35	-
Due from other funds	<u>12 852 46</u>	<u>10 743 35</u>	<u>10 612 75</u>
Total Assets	<u><u>314 443 46</u></u>	<u><u>130 073 49</u></u>	<u><u>134 083 78</u></u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	<u>5 425 20</u>	<u>-</u>	<u>-</u>
Total liabilities	<u><u>5 425 20</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>309 018 26</u>	<u>130 073 49</u>	<u>134 083 78</u>
Total fund equity	<u><u>309 018 26</u></u>	<u><u>130 073 49</u></u>	<u><u>134 083 78</u></u>
Total Liabilities and Fund Equity	<u><u>314 443 46</u></u>	<u><u>130 073 49</u></u>	<u><u>134 083 78</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
5 085 45	531 630 83
-	7 103 44
355 00	11 098 35
<u>540 00</u>	<u>34 748 56</u>
<u>5 980 45</u>	<u>584 581 18</u>

<u>-</u>	<u>5 425 20</u>
<u>-</u>	<u>5 425 20</u>

<u>5 980 45</u>	<u>579 155 98</u>
<u>5 980 45</u>	<u>579 155 98</u>
<u>5 980 45</u>	<u>584 581 18</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	579 155 98
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	228 806 00
Accumulated depreciation	<u>(76 002 40)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>731 959 58</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General</u>	<u>Garbage</u>	<u>Fire Protection</u>
Revenues:			
Property taxes	62 865 91	-	-
Licenses and permits	3 837 19	-	-
State revenue sharing	176 365 64	-	-
Charges for services – PTAF	32 638 01	-	-
Charges for services – cemetery	14 275 00		
Interest	10 379 56	868 72	2 008 20
Special assessments	-	90 660 00	-
Miscellaneous	<u>18 067 26</u>	<u>1 105 73</u>	<u>-</u>
Total revenues	<u>318 428 57</u>	<u>92 634 45</u>	<u>2 008 20</u>
Expenditures:			
Legislative:			
Township Board	16 642 56	-	-
General government:			
Supervisor	10 195 66	-	-
Elections	1 205 01	-	-
Assessor	28 686 79	-	-
Clerk	12 895 03	-	-
Board of Review	515 85	-	-
Treasurer	24 755 65	-	-
Building and grounds	7 362 62	-	-
Cemetery	10 523 50	-	-
Public safety:			
Fire protection	-	-	97 281 14
Planning	6 620 21	-	-
Zoning	6 611 99	-	-
Police protection	16 008 98	-	-
Public works:			
Highways and streets	227 089 71	-	-
Street lights	4 326 77	-	-
Sanitation	-	113 542 68	-
Other:			
Pension	5 610 20	-	-
Insurance	<u>5 329 00</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>384 379 53</u>	<u>113 542 68</u>	<u>97 281 14</u>
Excess (deficiency) of revenues over expenditures	(65 950 96)	(20 908 23)	(95 272 94)
Fund balances, April 1	<u>374 969 22</u>	<u>150 981 72</u>	<u>229 356 72</u>
Fund Balances, March 31	<u><u>309 018 26</u></u>	<u><u>130 073 49</u></u>	<u><u>134 083 78</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	62 865 91
-	3 837 19
-	176 365 64
-	32 638 01
-	14 275 00
11 52	13 268 00
4 685 00	95 345 00
-	19 172 99
<u>4 696 52</u>	<u>417 767 74</u>

-	16 642 56
-	10 195 66
-	1 205 01
-	28 686 79
-	12 895 03
-	515 85
-	24 755 65
-	7 362 62
-	10 523 50
-	97 281 14
-	6 620 21
-	6 611 99
-	16 008 98
4 504 77	231 594 48
-	4 326 77
-	113 542 68
-	5 610 20
-	5 329 00
<u>4 504 77</u>	<u>599 708 12</u>

191 75	(181 940 38)
<u>5 788 70</u>	<u>761 096 36</u>
<u>5 980 45</u>	<u>579 155 98</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (181 940 38)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(34 517 91)
Capital Outlay	<u>-</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (216 458 29)

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Tobacco, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Tobacco. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was .7356 mills, and the taxable value was \$85,543,677.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	20-30 years
Vehicles and equipment	5-15 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority. The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>603 639 30</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>625 031 74</u>
Total Deposits	<u>725 031 74</u>

The Township of Tobacco did not have any investments as of March 31, 2006.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 4/1/05	Additions	Deletions	Balance 3/31/06
<u>Governmental Activities:</u>				
Land	5 000 00	-	-	5 000 00
Buildings and improvements	36 098 00	-	-	36 098 00
Equipment	208 002 00	-	(20 294 00)	187 708 00
Total	249 100 00	-	(20 294 00)	228 806 00
Accumulated Depreciation	(61 778 49)	(34 517 91)	20 294 00	(76 002 40)
Net Capital Assets	<u>187 321 51</u>	<u>(34 517 91)</u>	<u>-</u>	<u>152 803 60</u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2006, was \$5,610.20.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Tobacco does not issue building permits. Building permits are issued by the County of Gladwin.

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	12 852 46	Current Tax Collection	34 748 56
Fire	10 612 75		
Garbage	10 743 35		
Petrick Pine	240 00		
Daleview	300 00		
Total	<u>34 748 56</u>	Total	<u>34 748 56</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 10 – Budget Variances

During the fiscal year ended March 31, 2006, the Township incurred the following budget variances:

<u>Fund/Activity</u>	<u>Budgeted Amount</u>	<u>Actual Amount</u>	<u>Budget Variance</u>
General Fund:			
Highways and streets	227 055 00	207 089 71	34 71
Insurance	5 000 00	5 329 00	329 00
Fire Protection Fund:			
Fire protection	91 500 00	97 281 14	5 781 14

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	55 000 00	55 000 00	62 865 91	7 865 91
Licenses and permits	3 200 00	3 200 00	3 837 19	637 19
State revenue sharing	175 000 00	175 000 00	176 365 64	1 365 64
Charges for services – PTAF	6 000 00	6 000 00	32 638 01	26 638 01
Charges for services – cemetery	6 500 00	6 500 00	14 275 00	7 775 00
Interest	3 000 00	3 000 00	10 379 56	7 379 56
Miscellaneous	3 985 00	3 985 00	18 067 26	14 082 26
Total revenues	<u>252 685 00</u>	<u>252 685 00</u>	<u>318 428 57</u>	<u>65 743 57</u>
Expenditures:				
Legislative:				
Township Board	22 740 00	22 740 00	16 642 56	(6 097 44)
General government:				
Supervisor	11 010 00	11 010 00	10 195 66	(814 34)
Elections	1 650 00	1 650 00	1 205 01	(444 99)
Assessor	30 500 00	30 500 00	28 686 79	(1 813 21)
Clerk	14 225 00	13 025 00	12 895 03	(129 97)
Board of Review	1 050 00	1 050 00	515 85	(534 15)
Treasurer	27 870 00	27 870 00	24 755 65	(3 114 35)
Building and grounds	9 820 00	9 820 00	7 362 62	(2 457 38)
Cemetery	11 300 00	12 950 00	10 523 50	(2 426 50)
Public safety:				
Planning	8 500 00	8 500 00	6 620 21	(1 879 79)
Zoning	7 900 00	7 900 00	6 611 99	(1 288 01)
Police protection	30 230 00	43 030 00	16 008 98	(27 021 02)
Public works:				
Highways and streets	105 490 00	227 055 00	227 089 71	34 71
Street lights	5 000 00	5 000 00	4 326 77	(673 23)
Other:				
Pension	9 000 00	9 000 00	5 610 20	(3 389 80)
Insurance	5 000 00	5 000 00	5 329 00	329 00
Contingency	10 000 00	10 000 00	-	(10 000 00)
Total expenditures	<u>311 285 00</u>	<u>446 100 00</u>	<u>384 379 53</u>	<u>(61 720 47)</u>
Excess (deficiency) of revenues over expenditures	(58 600 00)	(193 415 00)	(65 950 96)	127 464 04
Fund balance, April 1	<u>58 600 00</u>	<u>193 415 00</u>	<u>374 969 22</u>	<u>181 554 22</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>309 018 26</u>	<u>309 018 26</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GARBAGE FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Interest	1 200 00	1 200 00	868 72	(331 28)
Special assessments	89 000 00	89 000 00	90 660 00	1 660 00
Miscellaneous	-	-	1 105 73	1 105 73
Total revenues	<u>90 200 00</u>	<u>90 200 00</u>	<u>92 634 45</u>	<u>2 434 45</u>
Expenditures:				
Public works:				
Sanitation	<u>114 350 00</u>	<u>114 350 00</u>	<u>113 542 68</u>	<u>(807 32)</u>
Total expenditures	<u>114 350 00</u>	<u>114 350 00</u>	<u>113 542 68</u>	<u>(807 32)</u>
Excess (deficiency) of revenues over expenditures	(24 150 00)	(24 150 00)	(20 908 23)	3 241 77
Fund balance, April 1	<u>25 000 00</u>	<u>25 000 00</u>	<u>150 981 72</u>	<u>125 981 72</u>
Fund Balance, March 31	<u>850 00</u>	<u>850 00</u>	<u>130 073 49</u>	<u>129 223 49</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE PROTECTION FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	132 002 00	132 002 00	-	(132 002 00)
Interest	<u>1 200 00</u>	<u>1 200 00</u>	<u>2 008 20</u>	<u>808 20</u>
Total revenues	<u>133 202 00</u>	<u>133 202 00</u>	<u>2 008 20</u>	<u>(131 193 80)</u>
Expenditures:				
Public safety:				
Fire protection	<u>91 500 00</u>	<u>91 500 00</u>	<u>97 281 14</u>	<u>5 781 14</u>
Total expenditures	<u>91 500 00</u>	<u>91 500 00</u>	<u>97 281 14</u>	<u>5 781 14</u>
Excess (deficiency) of revenues over expenditures	41 702 00	41 702 00	(95 272 94)	(136 974 94)
Fund balance, April 1	<u>64 000 00</u>	<u>64 000 00</u>	<u>229 356 72</u>	<u>165 356 72</u>
Fund Balance, March 31	<u><u>105 702 00</u></u>	<u><u>105 702 00</u></u>	<u><u>134 083 78</u></u>	<u><u>28 381 78</u></u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended March 31, 2006

Township Board:	
Wages	5 290 00
Professional services	2 995 75
Payroll taxes	3 972 94
Memberships and dues	1 564 81
Miscellaneous	2 819 06
	<u>16 642 56</u>
Supervisor:	
Salary	9 960 00
Supplies	235 66
	<u>10 195 66</u>
Elections:	
Wages	1 064 75
Miscellaneous	140 26
	<u>1 205 01</u>
Assessor:	
Contracted services	27 743 45
Supplies	943 34
	<u>28 686 79</u>
Clerk:	
Salary – Clerk	12 000 00
Miscellaneous	895 03
	<u>12 895 03</u>
Board of Review:	
Wages	408 00
Miscellaneous	107 85
	<u>515 85</u>
Treasurer:	
Salary – Treasurer	16 620 00
Salary – Treasurer – summer	4 687 77
Salary – Deputy	679 00
Tax roll preparation	639 00
Supplies	1 842 23
Miscellaneous	287 65
	<u>24 755 65</u>
Building and grounds:	
Wages – janitor	4 020 00
Operating supplies	265 01
Contracted services	240 00
Utilities	2 837 61
	<u>7 362 62</u>
Cemetery:	
Contracted services	8 990 00
Utilities	325 50
Miscellaneous	1 208 00
	<u>10 523 50</u>
Planning:	
Wages	5 240 00
Miscellaneous	1 380 21
	<u>6 620 21</u>
Zoning:	
Wages	4 280 00
Supplies	2 331 99
	<u>6 611 99</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Police protection:	
Contracted services	10 705 62
Miscellaneous	<u>5 303 36</u>
	<u>16 008 98</u>
Highways and streets:	
Maintenance	<u>227 089 71</u>
Street lighting	<u>4 326 77</u>
Pension	<u>5 610 20</u>
Insurance	<u>5 329 00</u>
Total Expenditures	<u><u>384 379 53</u></u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2006

	<u>Garbage</u>	<u>Petrick Pine</u>	<u>Fire Protection</u>
<u>Assets</u>			
Cash in bank	108 586 79	3 298 89	123 471 03
Special assessment receivable	10 743 35	280 00	-
Due from other funds	<u>10 743 35</u>	<u>240 00</u>	<u>10 612 75</u>
Total Assets	<u>130 073 49</u>	<u>3 818 89</u>	<u>134 083 78</u>
<u>Fund Balances</u>			
Fund balances:			
Unreserved:			
Undesignated	<u>130 073 49</u>	<u>3 818 89</u>	<u>134 083 78</u>
Total fund balances	<u>130 073 49</u>	<u>3 818 89</u>	<u>134 083 78</u>
Total Fund Balances	<u>130 073 49</u>	<u>3 818 89</u>	<u>134 083 78</u>

<u>Daleview</u>	<u>Total</u>
1 786 56	237 143 27
75 00	11 098 35
<u>300 00</u>	<u>21 896 10</u>
<u>2 161 56</u>	<u>270 137 72</u>

<u>2 161 56</u>	<u>270 137 72</u>
<u>2 161 56</u>	<u>270 137 72</u>
<u>2 161 56</u>	<u>270 137 72</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2006

	<u>Garbage</u>	<u>Petrick Pine</u>	<u>Fire Protection</u>
Revenues:			
Special assessments	90 660 00	2 960 00	-
Interest	868 72	9 16	2 008 20
Miscellaneous	<u>1 105 73</u>	<u>-</u>	<u>-</u>
Total revenues	<u>92 634 45</u>	<u>2 969 16</u>	<u>2 008 20</u>
Expenditures:			
Public safety:			
Fire protection:			
Fire Board	-	-	1 050 00
Contracted services	-	-	95 889 17
Miscellaneous	-	-	341 97
Public works:			
Highways and streets:			
Repairs and maintenance	-	3 213 17	-
Sanitation:			
Contracted services	<u>113 542 68</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>113 542 68</u>	<u>3 213 17</u>	<u>97 281 14</u>
Excess (deficiency) of revenues over expenditures	(20 908 23)	(244 01)	(95 272 94)
Fund balances, April 1	<u>150 981 72</u>	<u>4 062 90</u>	<u>229 356 72</u>
Fund Balances, March 31	<u><u>130 073 49</u></u>	<u><u>3 818 89</u></u>	<u><u>134 083 78</u></u>

<u>Daleview</u>	<u>Total</u>
1 725 00	95 345 00
2 36	2 888 44
<u>-</u>	<u>1 105 73</u>
<u>1 727 36</u>	<u>99 339 17</u>
-	1 050 00
-	95 889 17
	341 97
1 291 60	4 504 77
<u>-</u>	<u>113 542 68</u>
<u>1 291 60</u>	<u>214 986 62</u>
435 76	(115 647 43)
<u>1 725 80</u>	<u>386 127 14</u>
<u>2 161 56</u>	<u>270 479 71</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>678 48</u>	<u>2 506 069 18</u>	<u>2 434 739 19</u>	<u>72 008 47</u>
<u>Liabilities</u>				
Due to other funds	618 38	199 508 67	165 378 49	34 748 56
Due to others	<u>60 10</u>	<u>2 306 560 51</u>	<u>2 269 360 70</u>	<u>37 259 91</u>
Total Liabilities	<u>678 48</u>	<u>2 506 069 18</u>	<u>2 434 739 19</u>	<u>72 008 47</u>

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2006

Cash on hand – beginning of year	<u>678 48</u>
Cash receipts:	
Taxes and assessments	2 495 584 08
Nonbusiness licenses – animal	53 08
Interest	<u>10 432 02</u>
Total cash receipts	<u>2 506 069 18</u>
Total beginning balance and cash receipts	<u>2 506 747 66</u>
Cash disbursements:	
Township General Fund	81 131 84
Township Garbage Fund	79 916 65
Township Petrick Pine Fund	2 680 00
Township Daleview Fund	1 650 00
Gladwin County	1 240 524 73
Mid-Michigan Community College	98 421 76
Clare Gladwin Intermediate School District	161 503 75
Beaverton School District	767 236 75
Refunds	<u>1 673 71</u>
Total cash disbursements	<u>2 434 739 19</u>
Cash in Bank – End of Year	<u>72 008 47</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 6, 2006

To the Township Board
Township of Tobacco
Gladwin County, Michigan

We have audited the financial statements of the Township of Tobacco for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Tobacco in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Tobacco
Gladwin County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,


CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants